

Message Text

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12

ORIGIN EB-11

INFO OCT-01 EUR-25 ISO-00 AID-20 CIAE-00 COME-00 FRB-02

INR-10 NSAE-00 RSC-01 TRSE-00 XMB-07 OPIC-12 SPC-03

CIEP-02 OMB-01 DODE-00 PM-07 H-03 L-03 NSC-07 PA-04

PRS-01 SS-20 USIA-15 /155 R

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FM SECSTATE WASHDC

TO AMEMBASSY BELGRADE

INFO AMCONSUL ZAGREB

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E.O. 11652: N/A

TAGS: EFIN, YO

SUBJECT: YUGOSLAV CONCERN OVER EXIMBANK INTEREST RATE HIKE

REFERENCE: BELGRADE 0784

1. FOLLOWING STATEMENT OF EXIMBANK VICE CHAIRMAN SAUER
USED IN CONGRESSIONAL TESTIMONY MAY BE DRAWN ON BY EMBASSY
IN EXPLAINING DECISION TO RAISE LENDING RATE:

QTE RECENTLY AFTER EXTENSIVE ANALYSIS BY THE BANK AND
THE NATIONAL ADVISORY COUNCIL ON INTERNATIONAL MONETARY AND
FINANCIAL POLICY, WE RAISED THE RATE CHARGED ON OUR 50 PER-
CENT OF THE FINANCING FROM SIX PERCENT TO SEVEN PERCENT
PER ANNUM.

THIS CHANGE REFLECTS THE CONSIDERED JUDGMENT OF THE
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BOARD OF DIRECTORS OF THE BANK THAT AN INCREASE IN THE RATE

WOULD NOT BE DETRIMENTAL TO THE BANK'S EFFORTS TO ASSIST U.S. EXPORTS. OBVIOUSLY, THE SEVEN PERCENT RATE BLENDED TO THE COMMERCIAL BANK RATE RESULTS IN A TOTAL EFFECTIVE COST OF FUNDS TO THE FOREIGN OBLIGOR WHICH IS SLIGHTLY HIGHER THAN WAS THE CASE WHEN THE BANK RATE WAS SIX PERCENT. HOWEVER, UNDER CURRENT INTERNATIONAL ECONOMIC AND FINANCIAL CONDITIONS, WE BELIEVE THAT THE HIGHER EFFECTIVE RATE IS STILL COMPETITIVE AND THAT THIS NEW RATE IS GENERALLY IN LINE WITH THE RATES CHARGED BY EXIMBANK'S COUNTERPARTS IN OTHER INDUSTRIALIZED COUNTRIES. IN ADDITION, THE INCREASE

REFLECTS EXISTING OVERALL COST OF FUNDS TO THE BANK WHICH FOR FY-1974 FOR THE FIRST TIME ROSE ABOVE SIX PERCENT. UNQTE.

2. FYI. USG HAS BEEN DISCUSSING INTEREST RATES WITH OTHER DEVELOPED COUNTRIES, AND INCREASE IN EXIMBANK RATE BASED ON ASSUMPTION CONTINUING COMPETITIVENESS OF OUR RATE. RATE IS UNDER CONTINUING REVIEW AND EVIDENCE THAT NEW RATE IS HARMING EXPORTS SHOULD BE REPORTED TO DEPT. END FYI. KISSINGER

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